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SUBJECT: NETHERLANDS: TREASURY DAS GLASER PREPARES DUTCH
FOR ACTION ON IRAN

REF: STATE 9124

Classified By: Pol/Econ Counselor Andrew Mann, reasons 1.4(b,d)

11. (S/NF) SUMMARY: Treasury DAS Glaser engaged key Dutch decision makers on Iran policy across three ministries January 26. The Dutch expressed support for increasing pressure on the Tehran regime. They assured Glaser the Netherlands would support tougher sanctions within the EU, although officials remain concerned that foreign companies will fill the void when individual Dutch businesses pull out of Iran. Glaser also shared specific information regarding Dutch companies doing business with IRGC front companies, potentially in violation of EU sanctions. The Dutch feel excluded when senior U.S. officials discuss sensitive policy issues in more prominent EU capitals, bypassing The Hague, so they appreciated Glaser's consultations, precisely the type of outreach that earns goodwill and support from this close ally. END SUMMARY.

FOREIGN MINISTRY / ECONOMIC AFFAIRS MINISTRY

12. (S/NF) Treasury Deputy Assistant Secretary for Terrorism Finance and Financial Crimes Danny Glaser and NEA Senior Advisor Elisa Catalano met January 26 with Henne Schuwer, Foreign Ministry Director for Middle East and North African Affairs (NEA A/S equivalent); Rene van Hell, Economic Affairs Ministry Deputy Director for Trade Policy and Globalization (oversees export control system); and other officials who handle Dutch sanctions and Iran policy. Schuwer prefaced the discussion by saying the Netherlands had long been clamoring within the EU to begin preparing for tougher "second track" steps against Iran. The Netherlands argued P5-plus-1 actions should not catch the EU by surprise. He conceded that within the Government of the Netherlands (GONL), the Ministries of Foreign Affairs (MFA), Economic Affairs (EZ), and Finance (MoF) each had its own interests to protect, but Foreign Minister Maxime Verhagen was committed to sanctions that "bite" and are "pinpointed where they will hurt" the Iranian regime. He mentioned he had received Tehran's new ambassador to the Netherlands January 25 and, dispensing with usual diplomatic pleasantries, had read him the scathing EU position regarding the human rights situation in Iran. Schuwer said he does not have high hopes for a new, strong UN Security Council Resolution (UNSCR) on Iran. Therefore, he said, the U.S., EU, and some like-minded countries would need to coordinate on second track action.

13. (S/NF) DAS Glaser agreed with Schuwer's assessment and said the international community had reached a point in its relations with Iran where it needed to emphasize the pressure track, while keeping open the option of engagement. He said the primary forum for this pressure remains the UN, and to that end the U.S. is pressing for a new resolution by the end of March. Glaser added he, too, did not expect UN action

would be strong or fast enough to change Iran's behavior. Therefore, the U.S. will also look to the EU and coordinated national measures among partner countries as means for more effective pressure on the Iranian regime. Glaser explained the U.S. had narrowed its focus to three primary Iranian vulnerabilities that could yield meaningful impact: the Iran Revolutionary Guard Corps (IRGC); financial system; and transport. Glaser also acknowledged broad interest and discussion of measures targeted at energy, and Catalano provided a summary of discussions with the U.S. Congress on that issue.

IRGC

14. (S/NF) Glaser said the U.S. had already designated the IRGC as a whole along with its primary business conglomerate Khatam al-Anbya and eight of its subsidiaries, and was currently reviewing information related to a longer list of other Khatam al-Anbya entities for future designation. He said he hoped to include as many of these companies as possible and that the EU would designate them by name as well.

15. (S/NF) Schuwer said the Dutch parliament and Minister Verhagen were concerned about Iranian authorities blocking cell phone and Internet access to quell the opposition movement, possibly by using Dutch hardware and software products. He said the GONL was trying to find a way to block the export of such products to Iran. Glaser acknowledged that the IRGC has expanded its influence and control over the Iranian economy and noted that Khatam al-Anbya maintains

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extensive ties within the EU. He also provided information illustrating business relationships between Khatam al-Anbya and its subsidiaries with Dutch and Dutch-related companies and highlighted the EU's own designation of Khatam al-Anbya as a "group of companies." Glaser offered that the existing international sanctions regime provides authorities under which some additional targeted measures can already be taken.

16. (S/NF) Schuwer noted the need for EU coordination on such measures to prevent member states from undercutting each other. For example, the Dutch are concerned if they shut down exports to Iran of a particular product, a German or Italian company will pick up the business instead. Schuwer added that although Minister Verhagen does not adhere to the logic that if China and others do not "play along" with Iran sanctions then the Netherlands should not either, from parliament's and the business community's perspective, the more countries "playing" the better.

FINANCIAL

17. (S/NF) Glaser told Schuwer financial measures against Iran have had the greatest impact since the targeted measures process began in 2006, with informal pressure on and dialogue with the international financial community as important as UN action (e.g., UNSCR 1803). He indicated Iran's direct links to Europe's formal banking sector had been severed with a few exceptions where small institutions continue to provide Iran with access to Euros. To counteract this, Glaser said the U.S. wanted to cut off all correspondent banking relationships with Iran through either UN or EU action. He explained it should not be difficult to gain support for this measure as all large banks have already severed their business ties with Iran. Glaser added that some countries have said they are prepared to take this step, others do not like to focus exclusively on correspondent banking relationships, and others still need to be convinced these measures are necessary. He said the U.S. would participate

in any effort to cut off these relationships. Because the prospect for this type of financial measure against Iran from the UN is dim, EU action in this regard would be important and could be aided by the call for countermeasures from the Financial Action Task Force (FATF), especially its warning of the risks of correspondent banking relationships with Iran.

18. (S/NF) Femke Kramer, the Economic Affairs Ministry's export control policy advisor, said concern remained within the EU that financial measures would harm legitimate exports to Iran. Glaser responded that the cost of doing business with Iran will inevitably rise as a result of a new round of sanctions, but he emphasized the U.S. was not calling for a trade embargo. He said each jurisdiction would have to decide how comprehensive to make its export controls and when to grant export licenses.

TRANSPORT

19. (S/NF) Glaser highlighted the effect of pressure to date on Iranian transportation sector, noting in particular the UK's October 2009 designation of Islamic Republic of Iran Shipping Lines (IRISL) that cut off its ships from accessing British Protection and Indemnity (P and I) clubs where they had previously obtained insurance coverage. He said this move left IRISL scrambling to find appropriate insurance coverage for its ships, which it found in a Bermuda P and I club. However, Bermuda quickly enacted similar legislation to the UK's and took the same action against IRISL in Qto the UK's and took the same action against IRISL in mid-January, putting IRISL in a position of potentially not being able to procure viable insurance coverage for its shipping operations. Glaser speculated the next logical step for the Iranian government would be to self-insure its ships, although it has not yet done this. He suggested if Iran does assume the risk of self-insuring, it will be interesting to see how the shipping industry reacts.

ENERGY

110. (S/NF) Glaser cautioned that energy has attracted too much attention as the sine qua non for serious action on Iran, but should not be ignored because the threat of energy-related sanctions has a great psychological impact on the regime. Schuwer noted the Netherlands had a special

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interest in measures targeting Iran's energy sector and moves by the U.S. Congress to apply "extraterritorial sanctions" on European companies dealing with Iran's energy sector. (Note: Royal Dutch Shell, based in The Hague, is the largest Dutch multi-national corporation and has proportional influence on Dutch foreign economic policy. End note.) Catalano responded the U.S. considers sanctions on gasoline suppliers to the Iranian market to be a relatively unattractive toll that is hard to implement. She added, however, that targeting foreign investment in Iran's energy sector more broadly could still be a useful measure. Catalano told Schuwer the Administration had successfully delayed final Congressional action on the Iran Sanctions Act (ISA) and related legislation, but could not stall much longer. She said the U.S. Senate was "highly likely" to pass legislation enforcing sanctions on companies selling refined products to Iran. She said the Administration was meeting with key Hill staffers to fine tune the language in the bills to allow for exemptions for "cooperative countries" in taking on Iran, although Congress would determine what qualifies as "cooperative." She predicted language would remain allowing the Administration to waive the application of sanctions on companies dealing with Iran's energy sector, but with a tougher standard than currently exists in ISA.

¶11. (S/NF) Schuwer expressed concern that Congress is also pressing the Administration to review past conduct of companies that may have run afoul of the ISA. Catalano explained the Administration was committed to this ongoing review and would soon have to tell Congress its determinations with respect to specific companies' energy investments in Iran since 1996. She also praised Shell as a model of excellent cooperation with the U.S. government to date. Schuwer stated, perfunctorily, the Dutch government would "protest vigorously the extraterritorial application of ISA."

DUTCH ADVICE ON WORKING IRAN ISSUE WITH EU

¶12. (S/NF) When Glaser solicited advice on engaging the EU on Iran sanctions, Schuwer said the U.S. must reach out beyond the "big 3" (France, Germany, UK) to Italy, Sweden, and Austria -- member states that typically resist stronger action against Iran during internal EU deliberations. He added the U.S. and Europe have different concepts of what "consultations" entail. He said while it is certainly helpful for senior U.S. officials to visit Brussels and share specific information about Iran policy, the conversation must be a two-way exchange rather than coming across as a U.S. dictation of its strategy. Schuwer concluded that type of consultation only plays into the hands of the EU member states trying to torpedo a tougher EU line on Iran.

FINANCE MINISTRY

¶13. (S/NF) Separately, Glaser and Catalano discussed Iran sanctions January 26 with Klaas Knot, Deputy Treasurer General and Director of Financial Markets at MoF. Given the MoF's role, the meeting focused on financial measures targeting Iran. Knot opened by underscoring that the Netherlands was as keen as the U.S. to implement effective sanctions aimed at altering the Iranian regime's behavior. Glaser described the current U.S. outreach plan in Europe and summarized the status of multilateral efforts to secure quickly a new round of strong sanctions targeting Iran. He Qquickly a new round of strong sanctions targeting Iran. He noted the relative effectiveness of financial sanctions to date and described the search for additional measures that would squeeze Iran even more tightly. Glaser explained cutting off correspondent banking remains the most attractive target because: a) an international framework to do this already exists via the FATF, and b) most large banks have already eliminated these relationships with Iran. Knot described his sense of greater willingness within the EU now to adopt stronger Iran sanctions, not just out of non-proliferation concerns but also to change the broader strategic calculations of the regime in Tehran. He thanked Glaser for coming to The Hague to share U.S. intentions on Iran firsthand. He added the U.S. could "always count on us" with respect to Iran and that Dutch policy was "not too far" from U.S. policy.

¶14. (S/NF) Knot was joined by Reijer Janssen, MoF Deputy Director of Foreign Financial Relations who also oversees the GONL's export credit and investment guarantee program. Janssen said the MoF had decided in December 2009 to "review"

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all of its export credits and investment guarantees involving Iran -- code speak meaning the GONL will not support any new business with Iran. He said the MoF did support a few "small transactions" in 2009 and wanted to recoup payment on these liabilities. If Iranian entities knew the GONL was pulling out all future support for exports/investments to Iran, they would have less incentive to pay their Dutch counterparties.

¶15. (S/NF) Glaser also met January 26 with Henk Swarttouw,

Foreign Ministry Director for Security Policy. The discussion touched on Iran sanctions briefly before addressing terrorism finance broadly. Glaser described the various funding sources that terrorists try to access and U.S./multilateral efforts to shut off this access. Glaser encouraged Swarttouw to inform post when he or his key staff are in Washington so that Treasury could arrange a detailed briefing on terrorism finance issues.

¶16. (U) DAS Glaser has cleared this cable.
LEVIN